

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner

In the Matter of a Petition by Interstate Power
and Light Company for Authority to Increase
Electric Rates in Minnesota

ISSUE DATE: July 17, 2003

DOCKET NO. E-001/GR-03-767

ORDER SETTING INTERIM RATES

PROCEDURAL HISTORY

On May 19, 2003, Interstate Power and Light Company (IPL or the Company) filed a petition for a general increase in electric rates. The Company requested a rate increase of \$4,973,766, or about 8.0% over existing rates.

IPL's petition requested an increase in rates for the interim period of \$2,858,158, or 4.6%. The Company requested that interim rates go into effect July 18, 2003.

On May 23, 2003, the Commission issued a notice requesting comments on whether IPL's filing complies with the requirements in Minn. Stat. § 216B.16, Minn. Rules parts 7825.3100 to 7825.4400 and prior Commission Orders. The Commission also requested comments on whether the matter should be referred to the office of Administrative Hearings (OAH) for a contested case proceeding.

On June 5, 2003 the Company filed supplementary information with the Commission.

On June 6, 2003, the Department of Commerce (DOC) submitted comments stating that the Company's filing was incomplete in that it had not submitted information required by prior Commission Orders in various dockets. The DOC acknowledged that the Company supplemented its filing by e-mail to the DOC on June 4, 2003 and that the Company's petition, including the supplementary information, met the filing requirements. The DOC recommended that the Company's petition be accepted as of June 5, 2003. The DOC recommended that this matter be referred to the OAH for contested case proceedings.

On July 8, 2003, the Company's petition came before the Commission for consideration.

On the same date herein, the Commission issued a NOTICE AND ORDER FOR HEARING, in which the Commission referred the general rate case to the OAH for contested case proceedings. On the same day, the Commission also issued its ORDER ACCEPTING FILING AND SUSPENDING RATES in this proceeding. The Commission accepted the Company's petition as of June 5, 2003.

Under Minn. Stat. § 216B, subd. 3, the Commission must order an interim rate schedule into effect no later than 60 days from the filing of a general rate case, unless the Commission allows the proposed rates to go into effect.

FINDINGS AND CONCLUSIONS

I. The Interim Rate Statute

Minn. Stat. § 216B.16, subd. 3 states in part:

(a) Notwithstanding any order of suspension of a proposed increase in rates, the commission shall order an interim rate schedule into effect not later than 60 days after the initial filing date. The commission shall order the interim rate schedule ex-parte without a public hearing.

(B) Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: 1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; 2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and 3) no change in the existing rate design....

Interim rates are collected subject to refund. If the Company collects more in interim rates than it would have collected in final rates, it refunds the difference to ratepayers. If it collects less, it can recover the difference, but only for the time period between the final determination in the rate case and the date on which the final rates go into effect.¹

II. The Merger

Electric service in this service area was formerly provided by Interstate Power Company (IPC). In April 1998 Interstate Power Company, IES Utilities Inc. (IES) and Wisconsin Power and Light Company (WPL) became wholly-owned subsidiaries of a newly formed company, Interstate Energy Corporation. On January 1, 2002, IPC and IES were merged to form IPL. IPL and WPL are wholly-owned subsidiaries of Alliant Energy, formerly known as Interstate Energy Corporation.

The Commission, in its Order of November 3, 2000, approved the IPC and IES merger (the Merger Order).² Ordering paragraph 1.h states:

¹ Minn. Stat. § 216B16, subd. 3

² *In the Matter of Interstate Power Company's Petition for Approval of a Proposed Merger Between IPC and IES Utilities, Inc.*, Docket No. E,G-001/PA-00-385, ORDER APPROVING MERGER, AS CONDITIONED, November 3, 2000.

Prior to the Commission approving any future consolidation of rates, the Company will demonstrate why the consolidation of rates is consistent with the public interest.

As a result of the merger, the make-up of the company now serving Minnesota has gone through considerable change.

The Company has prepared both the interim rate petition and the main rate case based on the IPL methods rather than the methods of the prior company. For example, under the IPL system the proposed costs of energy for the Minnesota jurisdiction are lower than they would have been under the old methods. However, due to a redesign of the allocating methods, higher capital costs (such as nuclear decommissioning costs) may have been allocated to the Minnesota jurisdiction.

The Company's interim rates petition and main rate case are based entirely on IPL's accounting and cost allocation methodologies; they do not permit comparison between the results of applying IPL's methodology and the results of applying the methodology used by the prior company.

These circumstances raise the issues of whether the November 3, 2000 Order approving the merger prevents the implementation of the proposed methods for interim rates and whether the rate base or expense items are "the same in nature and kind" as required in the interim rate statute.

III. Commission Action

The Commission is obligated to establish interim rates under the interim rate statute.³ This statute requires the Commission to set interim rates in conformity with the utility's last general rate case adjusted for known changes in costs that are the same in nature and kind, *unless the Commission finds that exigent circumstances exist*. In the current situation, the Commission finds that the merger creates such circumstances.

The Commission recognizes that as a result of the merger IPL is essentially a new company. It would be difficult to recreate the old Interstate company for purposes of this rate case.

Further, the Commission will waive paragraph 1.h of the Merger Order to allow the interim rate proposal to go forward. Customers will be protected under the interim rate refund provisions, and the proposed methods will not become final until approved by the Commission in the main rate case proceeding.

IV. The Company Proposal

IPL proposed an interim rate increase of \$2,858,158⁴ based on the following revenue summary. The test year chosen by IPL is the historical year 2002, with adjustments for certain known changes.

³ Minn. Stat. § 216B.16, subd. 3.

⁴ The proposed increase in interim revenues is calculated by adjusting the \$2,860,072 revenue deficiency amount to reflect the increase assigned to a nonjurisdictional customer and for minor effects of rounding.

Revenue	\$ 62,594,096
Rate Base	\$107,905,993
Rate of Return	9.054%
Required Operating Income	\$ 9,769,809
Operating Income	\$ 8,092,948
Income Deficiency	\$ 1,676,861
Gross Revenue Conversion	1.705611
Revenue Deficiency	\$ <u>2,860,072</u>

V. Financial Issues

A. Nuclear Decommissioning

1. The Company's Proposal

Prior to the merger of IPC and IES, Interstate did not operate nuclear generation. As a result of the merger, the Duane Arnold Nuclear Facility became part of the generation mix used to serve IPL's Minnesota load.

IPL has included test year expense of \$1,413,370 for nuclear decommissioning. This amount is based on a decommissioning study and proposed annuity recovery method which results in a \$23.2 million annual amount for decommissioning on a total company basis. Recently, however, the Iowa Utilities Board set the annual decommissioning amount on a total company basis at \$16.7 million. This would result in a test year decommissioning expense of approximately \$1,016,000 and would reduce the interim revenue deficiency by approximately \$397,000.

2. Commission Action

As discussed above, the Commission finds that exigent circumstances exist due to the merger and that nuclear decommissioning costs will therefore be allowed. The merger resulted in the nuclear facility serving Minnesota ratepayers due to the overall restructuring of the Company, and the merger received this Commission's approval. This was not a situation where there was a purchase or construction of a new facility and the prudence of these actions had not yet been determined.

However, the Commission will not allow an amount in Minnesota interim rates that exceeds the amount allowed by the primary jurisdiction, in this case Iowa. For this reason the Commission will reduce the test year decommissioning expense for interim rates to be consistent with the level currently allowed in the Iowa jurisdiction.

B. MISO Network Service Charges

The Commission, in its May 9, 2002 Order in Docket E001/PA-01-1505,⁵ authorizing IPL to transfer operational control of its transmission facilities to MISO, directed that IPL not seek retail rate changes due to future wholesale transmission rate changes except in the context of a rate proceeding, or if otherwise authorized by the Commission. The Order also directed that IPL not recover MISO schedule 10 administrative charges in Interstate's retail rates unless authorized by the Commission.

IPL identified \$3,206,118 of MISO Network Service Charges (of which 6.1% were attributed to Minnesota), which should be excluded for interim rates. This reduces the interim test year expense by \$195,573.

The Commission will direct IPL to reduce the interim test year expense of \$195,573 to be consistent with the Order.

C. Conservation Cost Recovery Charge

1. The Company's Proposal

IPL's most recent rate case established a conservation cost recovery charge (CCRC) of \$0.00171. The surcharge that was in effect (to be applied to customer bills) for the 2002 test year was \$0.00291. However the surcharge has been recently reduced to \$0.00215 by Commission Order.⁶

IPL proposed to include test year expense and revenue for interim rates of approximately \$3,074,102, to be collected by the conservation cost recovery charge of \$0.00171 and by the \$0.00215 surcharge. However, IPL's calculations used the surcharge amount of \$0.00291, which generated \$611,369 more than would have been the case had the Company used the appropriate \$0.00215 surcharge.

To adjust for this the Company suggested that it reduce both test year revenue and expense by \$611,369, which would result in the same increase but a lowered authorized revenue amount.

2. Commission Action

The Commission agrees with the Company's proposal to reduce both the test year revenue and expense by the \$611,369 amount. This will result in the same increase but a lower authorized revenue amount and more accurately reflects the conservation charges which will be in effect.

⁵ *In the Matter of Interstate Power Company's Petition for Approval of Transfer of Operational Control of Transmission Facilities to the Midwest Independent System Operator*, Docket No. E-001/PA-01-1505, ORDER AUTHORIZING TRANSFER WITH CONDITIONS, May 9, 2002.

⁶ *In the Matter of a Request by Interstate Power and Light Company for Approval of CIP Annual Adjustment Factor*, Docket No. E-001/M-02-1365, Informal Order, December 6, 2002.

D. Cost of Energy

The Commission in its Order in Docket E-001/MR-03-768, issued on the same date herein, set IPL's energy costs at \$0.01669 per kWh and reduced the interim test year energy costs and interim increase by \$332,960.

The Commission, to be consistent with its actions in that docket, will do the same here. This reduces the interim revenue deficiency by approximately \$332,960.

VI. Interim Rate of Return

A. The Company's Proposal

The proposed capital structure and cost rates for interim rates are as follows:

Type of Capital	Amount (\$)	% of Total	Cost	Weighted Cost
Long Term Debt	848,333,496	45.155%	7.084%	3.199%
Preferred Stock	144,599,935	7.697%	8.688%	0.669%
Common Equity	885,766,443	47.148%	11.000%	5.186%
Total Capital	1,878,699,874	100.000%		9.054%

The interim rate statute provides that to determine the interim rate of return the proposed test year cost of capital is to be used, except substituting the return on common equity authorized in the Company's last rate case. IPL was last authorized a return on common equity of 11.000%. When this is substituted the interim rate of return is calculated to be 9.054%.

B. Commission Action

The Commission finds that the Company's rate of return proposed for interim rates meets the intent of the statute.

VII. Interim Rate Design

A. The Company's Proposal

IPL proposed to remove the base cost of fuel and the Energy Charge Adjustment from the revenues generated by present rates and then increase the remaining rate components (customer charge, energy charge, demand charge) by a uniform factor. This would result in a uniform percentage increase in revenue from the non-fuel portion of the bill for each rate class. IPL then added the base cost of fuel and the Energy Charge Adjustment back into the required revenue to get the proposed interim revenue increase for each class. The increase varies from 4.0% to 5.9%.

B. Commission Action

The interim rate statute provides that an interim rate schedule shall include no change in the existing rate design, unless exigent circumstances exist. IPL's proposed method results in a uniform interim increase to all the non-fuel rate components in the present case. Since this results in no change to the existing rate design, it will be accepted.

VIII. The Rate Increase on Customer Bills

A. IPL's Proposal

IPL has proposed to show the interim increase as a separate line item for each of the rate components (customer charge, energy charge, demand charge). It will also include a message on the bill that explains the interim rate designation, and language stating that the increase is subject to refund pending a final decision by the Commission.

This will provide adequate notice to the ratepayers and will be accepted.

IX. Interim Test Year Revenue Summary

Based on the above Commission findings, the initial interim test year revenue summary is modified as follows, resulting in a gross revenue deficiency of \$1,933,936, or approximately 3.1%.

Revenue	\$ 61,982,727
Rate Base	\$107,904,241
Rate of Return	9.054%
Required Operating Income	\$ 9,769,650
Operating Income	\$ 8,635,783
Income Deficiency	\$ 1,133,867
Gross Revenue Conversion	1.705611
Revenue Deficiency	\$ <u>1,933,936</u>

Adding the \$1,933,936 gross revenue deficiency to test year revenues under present rates of \$61,982,727 results in authorized interim annual revenues of \$63,916,663, including the nonjurisdictional customer.

ORDER

1. The Commission adopts IPL's interim rate base and expense items with the modifications set forth below:
 - a. IPL shall reduce nuclear decommissioning test year expense by \$397,000 to set Minnesota nuclear decommissioning costs in a manner similar to that approved by the Iowa Utilities Board;

- b. IPL shall reduce CIP test year revenue and expense by \$611,369 to incorporate the known and measurable change of the reduced CIP surcharge and to properly reflect the revenue requirement being determined. IPL shall maintain an accounting of the CIP costs and revenues throughout the interim period to support a review of the tracker balance at the time the rate case is finalized.
 - c. IPL shall reduce MISO test year expense by \$195,573 to exclude costs and be consistent with the Commission's May 9, 2002 Order in Docket E001/PA-01-1505.
 - d. IPL shall reduce test year fuel and purchase power expense by \$332,960 to properly reflect test year energy costs and to be consistent with the Commission's decision in E001/MR-03-768.
 - e. The Company shall work with the Commission staff in incorporating the changes directed here into the calculation of the revised interim revenue requirement for purposes of the Order and in preparing the interim tariff pages collecting the authorized revenue requirement.
- 2. Paragraph 1.h of the Commission's November 3, 2000 Order in Docket No. E,G-001PA-00-385 is hereby waived.
- 3. The Commission accepts IPL's proposed interim rate of return of 9.054%.
- 4. The Commission authorizes IPL to implement its proposed application of the interim rate increase to individual rate components and rate classes.
- 5. The Commission authorizes IPL to implement its method of showing the interim rate adjustment for each rate component as a separate line item on customer bills. IPL shall file, by July 18, 2003, an example of a Minnesota customer bill showing the interim increase.
- 6. IPL's message on customer bills shall explain the new interim rate designation and state that the increase is subject to refund pending a final decision in the case by the Commission. IPL shall include this message on the sample Minnesota bill required as a compliance filing in ordering paragraph 5, above.
- 7. IPL shall make interim rates effective for all consumption on or after July 18, 2003.
- 8. IPL shall file with the Commission and the Department of Commerce interim tariff sheets and supporting documentation reflecting the Commission's decisions regarding interim rates. This filing shall be made by July 18, 2003.
- 9. IPL shall keep such records of sales and collections under interim rates as would be necessary to compute a potential refund. Any refund should be made within 120 days of the effective date of the Commission's final Order in a manner approved by the Commission.

10. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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